

balco

Annual Report 1980

AR50





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balco
INDUSTRIES LTD
& SUBSIDIARY COMPANIES



FIVE YEAR FINANCIAL HIGHLIGHTS

FOR THE YEAR (In \$000)	1980	1979	1978	1977	1976
Sales	66,056	81,676	67,848	35,219	18,531
Earnings	3,314	6,754	5,408	2,515	1,535
Earnings as % of Sales	5.0%	8.3%	7.5%	7.1%	8.3%
Depreciation & Amortization	3,534	3,705	3,032	1,758	752
Cash Flow	7,065	11,225	9,679	4,787	2,637
Capital Expenditures	3,077	5,626	4,079	4,081	2,080
Dividends Paid	497	509	402	252	277
PER SHARE AMOUNTS*					
Earnings	1.60	3.27	2.69	1.25	.76
Cash Flow	3.41	5.43	4.81	2.38	1.31
Dividends Paid	.24	.20	.20	.12½	.13¾
Shareholders' Equity	10.85	9.51	6.43	3.94	2.81
SHARE TRADING RANGE*					
High	9½	9.50	5.25	3½	2.50
Low	4.50	4.75	2½	2.10	1.50
YEAR END POSITION (In \$000)					
Working Capital	7,827	6,184	3,993	738	635
Long-term Debt Including Current Instalments	6,949	6,593	9,907	11,957	248
Shareholders' Equity	22,473	19,657	12,931	7,925	5,662
Common Shares Outstanding (In \$000's Shares)	2,072	2,072	1,006	1,006	1,006

*Figures for 1978, 1977 and 1976 have been adjusted for stock split of two for one in 1979.

As a part of our efforts to ensure a future timber supply just over one million seedlings were planted on cut over lands. The company's personnel have been engaged in innovative forest management programs designed to increase the ultimate yield from our forest lands. Many of the techniques being used have attracted public attention due to the unique manner in which they complement other resource users, particularly wildlife, domestic grazing, recreation and watershed uses, while at the same time fostering accelerated growth.

Our forest management program will become more intensive providing the Provincial government's section 88 program continues to recognize the need and becomes more realistic in its reimbursement of costs incurred. Currently the lack of ongoing funding (ie. beyond a fiscal year) and slow payment for work completed impedes both the Ministry and the Industry.

Our efforts to increase timber yields have concentrated on "Fallers choice" logging techniques followed by quality spacing in uneven-aged stands, commercial thinning of immature stands, juvenile spacing as well as insect and disease control programs. We expect these will provide significant gains on timber yields which will ultimately be recognized under the Forest Act to maintain or increase the company's annual cut.

The company's proposal to construct a forest nursery was approved by the Ministry late in the year. The nursery will be constructed during 1981 and will open a new and exciting era in our quest for more progressive management of the forest lands. We expect to couple this development with an early approval of our proposed seed orchard. This will allow us to breed "plus trees" for genetically superior seed which, in turn, can be grown to seedlings in our nursery. The ultimate planting of these seedlings on our cut over lands will result in substantial gains in timber quality and yield.

During the year the company purchased a 7400 acre parcel of forest and range land near Merritt, B.C., known as the Voght Valley ranch. This property will be managed on an integrated basis for the production of timber and forage for cattle, using the techniques which proved so successful in our Community Lake experiment.

As a result of the depressed lumber markets experienced in 1980, particularly in the second quarter, stumpage payments to the Crown were substantially reduced in the third and fourth quarters.

Thus total stumpage payments for the year amounted to \$4.4 million compared to payments of \$11.8 million in 1979. Despite this reduction, stumpage once again exceeded the company's net earnings.

1980 marked the first full year of the company's partnership with Gilbert Smith Forest Products Ltd. Substantial benefits were realized by both parties as a result of our ability to exchange logs and co-operate in woodlands activities. We are fully confident that the capable and dedicated management team of Gilbert Smith Forest Products Ltd. will, with the expected market recovery for cedar products, lead to substantially improved results in the coming years.



Balco's contract logging workforce numbers over 300 employees.

Gilbert Smith Forest Products Ltd., in which Balco owns a 50% equity, undertook a modernization program, highlighted by the installation of a new narrow kerf edger.



FINANCIAL

In keeping with the lower earnings, capital expenditures were limited to \$4.6 million. The majority of this sum was spent for plant, equipment and forest access roads. The purchase of the Voght Valley ranch represented the largest single expenditure.

The upgrading of the manufacturing facilities has been the primary user of capital funds over the past five years. Late in the year, the Directors approved a comprehensive study aimed at determining the viability and optimum location of a new sawmill to replace one of the present older plants.

A net reduction of \$421,500 was applied against the long term debt compared to \$2,012,000 in 1979. The total long term debt now amounts to \$6.1 million. The working capital at year end increased to \$7,828,000 from \$6,184,000 in 1979. The company paid dividends totalling \$497,280 during the year, or \$.24 per share.

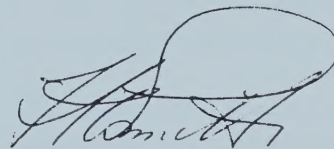
OUTLOOK IN 1981

In light of current economic forecasts, which predict a gradual but relatively slow improvement in the wood products market during 1981, the company will continue to direct its efforts at reducing operating costs and improving productivity. The planned capital expenditures program reflecting this conservative approach, amounts to \$2.7 million. In addition, a further \$700,000 is planned to be spent for the construction of forest access roads.

The Master Agreement between the Interior Forest Labour Relations Association, of which Balco is a member and the International Woodworkers of America will expire on June 30, 1981. Collective bargaining aimed at establishing a new contract will commence early in the year.

The financial outlook for 1981 (barring labour disruptions), is for a moderate improvement over 1980 results, owing to the expected modest recovery in sales volumes and prices. The company is, by virtue of its concerted efforts to control operating costs, well poised to take full advantage of any improvements in the wood products market.

On behalf of the Directors



H. O. Smith
President

March, 1981



Tony Cuzzetto, Lumber Grader, one of 794 men and women employed in our woodlands and manufacturing operations.

During 1980, Balco shipped the equivalent of over 10,000 truckloads of softwood plywood and lumber to Canadian, USA and Overseas markets.



AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Balco Industries Ltd. as at November 30, 1980 and the consolidated statements of earnings, earnings reinvested in the business and changes in financial position for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances. In our opinion, these consolidated financial statements

present fairly the financial position of the company as at November 30, 1980 and the results of its operations and the changes in its financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Kamloops, B.C.
January 19, 1981

Garrett, Gould & Sliott
Chartered Accountants

CONSOLIDATED STATEMENT OF EARNINGS

For the year ended November 30, 1980

	1980	1979
Sales (note 8)	\$66,056,057	\$81,676,137
Costs and expenses		
Cost of sales	53,131,825	62,827,321
Depreciation, depletion and amortization	3,534,022	3,705,522
Administration and other expenses	2,275,570	2,414,983
Interest - on current debt	616,486	97,852
- on long-term debt	392,317	626,802
	59,950,220	69,672,480
Earnings from operations	6,105,837	12,003,657
Equity in after-tax earnings (loss) of 50% owned company	(138,879)	103,830
Earnings before income taxes and extraordinary item	5,966,958	12,107,487
Provision for income taxes - current	2,575,191	4,483,782
- deferred	78,000	657,519
Earnings before extraordinary item	3,313,767	6,966,186
Extraordinary item		212,000
Earnings for the year	\$ 3,313,767	\$ 6,754,186
Earnings per share (note 10)		
Earnings before extraordinary item	\$ 1.60	\$ 3.37
Earnings for the year	\$ 1.60	\$ 3.27

CONSOLIDATED STATEMENT OF EARNINGS REINVESTED IN THE BUSINESS

For the year ended November 30, 1980

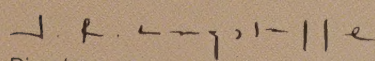
	1980	1979
Balance at beginning of year	\$17,886,772	\$11,641,586
Earnings for the year	3,313,767	6,754,186
	21,200,539	18,395,772
Dividends	497,280	509,000
Balance at end of year	\$20,703,259	\$17,886,772

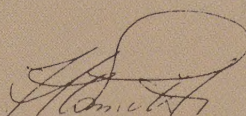
CONSOLIDATED BALANCE SHEET

As at November 30, 1980

	1980	1979
Current assets		
Cash		\$ 253,630
Accounts receivable (notes 3 and 8)	\$ 7,828,517	7,501,495
Inventories (notes 2 and 3)	11,259,000	12,277,000
Prepaid expenses	88,559	89,139
	19,176,076	20,121,264
Less current liabilities		
Bank indebtedness (note 3)	3,115,022	
Accounts payable (note 8)	4,646,425	11,278,339
Income taxes payable	2,656,051	2,526,370
Dividends payable	124,320	103,600
Long-term debt instalments due within one year (note 6)	806,744	28,856
	11,348,562	13,937,165
Working capital	7,827,514	6,184,099
Invested capital		
Timber at cost less accumulated depletion	1,749,742	224,176
Investments in 50% owned companies (note 4)	1,440,281	1,579,160
Timber deposits	192,145	197,058
Property, plant and equipment (note 5)	21,600,538	22,285,258
Deferred charges and other assets (note 7)	393,940	261,304
	25,376,646	24,546,956
Less		
Long-term liabilities - notes and agreements payable (note 6)	6,142,584	6,563,966
Deferred income taxes	4,588,317	4,510,317
	10,730,901	11,074,283
Net invested capital	14,645,745	13,472,673
Shareholders' equity	\$22,473,259	\$19,656,772
Represented by		
Common shares without par value		
Authorized 4,000,000		
Issued and fully paid 2,072,000	\$ 1,770,000	\$ 1,770,000
Earnings reinvested in the business	20,703,259	17,886,772
Shareholders' equity	\$22,473,259	\$19,656,772

Approved on behalf of the board


Director


Director

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

For the year ended November 30, 1980

	1980	1979
Source of working capital		
Earnings for the year before extraordinary item	\$3,313,767	\$ 6,966,186
Items not involving working capital		
Depreciation, depletion and amortization	3,534,022	3,705,522
Deferred taxes	78,000	657,519
Equity in (earnings) loss of 50% owned company	138,879	(103,830)
	7,064,668	11,225,397
Disposal of fixed assets, net of gains and losses	240,073	316,578
Assumption of long-term debt	392,119	392,000
Proceeds from issue of common shares		480,000
Dividends from 50% owned company		14,670
	7,696,860	12,428,645
Application of working capital		
Investment in property, plant and equipment	2,612,085	5,187,779
Investment in forest access roads	464,907	438,505
Reduction in long-term debt	813,500	2,404,426
Dividends	497,280	509,000
Purchase of timber	1,537,950	82,500
Investment in 50% owned companies		1,490,000
Increase in deferred charges	127,723	124,308
Other applications		821
	6,053,445	10,237,339
Increase in working capital	1,643,415	2,191,306
Working capital at beginning of year	6,184,099	3,992,793
Working capital at end of year	\$7,827,514	\$ 6,184,099

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

November 30, 1980

1. Summary of Significant Accounting Policies

a) Principles of Consolidation

The consolidated financial statements include the accounts of Balco Industries Ltd., and its wholly owned subsidiary Waymark Services Ltd. for the year ended November 30, 1980.

b) Inventories

Inventories are valued at the lower of cost or net realizable value. Cost, other than for supplies, is determined by an average cost method.

c) Property, Plant and Equipment

Property, plant and equipment includes cost of major replacements and betterments. Maintenance, repairs and minor replacements are charged against income as incurred.

d) Depreciation, Depletion and Amortization

Depreciation of plant and equipment is provided on a straight-line basis at rates varying from 4% to 20%. The rate for each class of property is based on estimated economic life. Depletion of timber resources is provided on the basis of timber harvested.

Logging roads are amortized as timber is harvested at rates determined with reference to volumes of timber estimated to be removed over such facilities.

Excess of cost over assigned value of net assets of businesses purchased is amortized on a straight-line basis over twenty years.

e) Deferred Income Taxes

Deferred income taxes are provided to recognize the effect of timing differences between accounting and taxable income.

f) Income Taxes

Investment tax credits on qualified property purchased are used to reduce current income taxes payable in the year of realization. As a result current income taxes have been reduced by \$113,717 (1979 - \$229,621).

g) Investments

Investments in 50% owned companies have been accounted for following the equity basis of accounting.

2. Inventories

	1980	1979
Logs	\$ 5,073,000	\$ 6,847,000
Lumber	4,795,000	3,576,000
Veneer	279,000	294,000
Plywood	239,000	781,000
Fuel, oil, parts and supplies	873,000	779,000
	\$11,259,000	\$12,277,000

3. Bank indebtedness

The company has granted its bank a general assignment of accounts receivable and inventories and a demand debenture covering all assets of the company to secure any indebtedness which may arise.

4. Investments in 50% owned companies

Investment in shares at cost	\$1,490,000
Accumulated equity in loss since acquisition plus dividends received	(49,719)
	\$1,440,281

5. Property, Plant and Equipment

	Cost	Accumulated Depreciation and Amortization	Net Book Value
Land	\$ 2,233,276		\$ 2,233,276
Plant and equipment	35,205,636	\$16,442,418	18,763,218
Roads	2,108,315	1,504,271	604,044
Totals	\$39,547,227	\$17,946,689	\$21,600,538

6. Long-term liabilities

	Principal Payments Due Within One Year	Total
Agreement Payable, unsecured, payable in monthly instalments of \$1,500 with interest at 9% per annum	\$ 6,744	\$ 6,744
Promissory Note plus accrued interest, payable in annual instalments of \$800,000 starting June 28, 1981, interest accrued at 7% per annum payable June 28, 1988	800,000	6,942,584
	\$806,744	6,949,328
Principal payments due within one year		806,744
		\$6,142,584

The annual maturities of long-term debt for each of the next five years are as follows:

1981	\$806,744
1982	\$800,000
1983	\$800,000
1984	\$800,000
1985	\$800,000

7. Statutory information

Remuneration to directors and senior officers (as defined by the B.C. Companies Act) of the company in the current fiscal period was \$341,507 (1979 - \$284,973) of which \$22,050 was directors fees.

Other assets include a loan to an employee of \$36,160.

8. Related party transactions

The majority shareholder of Balco Industries Ltd. is Canadian Forest Products Ltd.

Substantially all sales are made by or to Canadian Forest Products Ltd. and parties related to it under marketing agreements. The sales commissions paid under these marketing agreements, together with the corporate and computer services of Canadian Forest Products Ltd. utilized by Balco Industries Ltd. amounted to \$655,357 (1979 - \$863,729). Additionally there is a log trading arrangement with Gilbert Smith Forest Products Ltd., a 50% owned company.

The amounts included in accounts receivable at November 30, 1980 due from affiliates totalled \$6,221,845. Accounts payable include amounts due to affiliates of \$229,761 at November 30, 1980.

Through Canadian Forest Products Ltd. the company has a commitment to sell \$1,000,000 U.S. dollars per month for the next eleven months at rates ranging from \$1.1605 to \$1.1867.

Canadian Forest Products Ltd. guarantees \$2,800,000 of the company's long-term debt.

9. Industry segment and export sales

The company's entire operations consist of the manufacture and sale of products of the forest industry. In 1980, export sales were as follows:

U.S.A.	\$27,435,000
Other	2,283,000
	\$29,718,000

10. Earnings per share

Earnings per share figures are calculated using the weighted monthly average number of shares outstanding during the respective fiscal years after giving retroactive effect to the stock split (2:1) on September 12, 1979.



The Board of Directors *Left to right: seated, R. L. Cliff, H. O. Smith, J. R. Longstaffe, D. L. Balison, P. J. G. Bentley; standing, J. A. Robinson, J. S. Farrell, W. M. Robson; absent, J. G. Chaston.*

The Operating Group *Left to right: R. F. Weinman, T. G. Jeanes, D. J. Dunkley, H. O. Smith, J. E. Martignago, J. Y. Obana*





BALCO INDUSTRIES LTD & SUBSIDIARY COMPANIES

DIRECTORS OF THE COMPANY

- †**H. O. Smith**, *President and Chief Executive Officer*
Balco Industries Ltd., Kamloops, B.C.
- ***D. L. Balison**, *Retired, Kamloops, B.C.*
- P. J. G. Bentley**, *President and Chief Executive Officer*
Canadian Forest Products Ltd., Vancouver, B.C.
- J. G. Chaston**, *Chairman*
Pemberton Securities Ltd., Vancouver, B.C.
- ***R. L. Cliff**, *Chairman*
Inland Natural Gas Co. Ltd., Vancouver, B.C.
- J. S. Farrell**, *Senior Vice-President*
Versatile Cornat Corporation, Vancouver, B.C.
- †***J. R. Longstaffe**, *Executive Vice-President*
Canadian Forest Products Ltd., Vancouver, B.C.
- †**J. A. Robinson**, *Group Vice-President*
Wood Products Manufacturing
Canadian Forest Products Ltd., Vancouver, B.C.
- W. M. Robson**, *Group Vice-President*
Building Materials Marketing
Canadian Forest Products Ltd., Vancouver, B.C.

†Member of Executive Committee

*Member of Audit Committee

OFFICERS OF THE COMPANY

- J. R. Longstaffe**, *Chairman, Vancouver, B.C.*
- H. O. Smith**, *President and Chief Executive Officer*
Kamloops, B.C.
- T. G. Jeanes**, *Vice-President, Woodlands*
Kamloops, B.C.
- J. E. Martignago**, *Vice-President, Administration*
Kamloops, B.C.
- J. Y. Obana**, *Vice-President, Finance & Controller*
Kamloops, B.C.
- R. F. Weinman**, *Secretary, Vancouver, B.C.*

BUSINESS LOCATIONS

Company Offices

R. R. No. 3, Kamloops, B.C. V2C 5K1

Auditors

Jarrett, Goold & Elliott, Chartered Accountants
Kamloops, B.C.

Solicitors

Rogers, Hunter & Company
Kamloops, B.C.

Bankers

Canadian Imperial Bank of Commerce
Kamloops, B.C.

Transfer Agent and Registrar

Yorkshire Trust Company
Vancouver, B.C.

Wholly-Owned Subsidiaries

Waymark Services Ltd.
Kamloops, B.C.

Affiliated Companies

Gilbert Smith Forest Products Ltd.
Barriere, B.C.
Interior Composted Soils Ltd.
Kamloops, B.C.

Annual General Meeting

Thursday, April 23, 1981 at 9:00 a.m.
Canadian Inn, Kamloops, B.C.



